

# Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • March 1982

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## FED ANNOUNCES NEW CHECK PRICES

The Federal Reserve Bank of San Francisco has revised fee schedules for commercial-check services to take effect on April 1, 1982. The Reserve Bank has now released new price schedules for the San Francisco (Twelfth) District, along with revised check-collection prices for some of the other Federal Reserve Districts.

The original price schedules were published in March 1981, and became effective on August 1 of that year with the initiation of open access and pricing of check services. Those prices were based on estimates of direct and indirect operating costs for check collection in 1981, plus a private-sector adjustment factor. That factor was applied to all costs except shipping, which is provided by private companies.

In accordance with the Monetary Control Act of 1980, all Reserve Banks must price their non-governmental services to recover costs, plus a private-sector adjustment factor. That factor includes a markup for taxes and the full cost of capital that normally would have been incurred by a private supplier. For 1981 and 1982, the private-sector markup was set at 16 percent.

After six months' experience with priced check services, Reserve Banks have revised some of their fees to reflect operating costs and volume differentials more accurately. In addition, to account for variances in market and economic environments affecting the areas served by its five offices, the San  
(Continued on page 4)



## WORK CONTINUES ON FED HEADQUARTERS

Exterior construction is practically completed on the new headquarters building of the Federal Reserve Bank of San Francisco. The new 12-story headquarters spans the entire block between Main and Spear Streets, one block from the Ferry Building on lower Market Street. All mechanical and electrical systems have been installed, and work continues on installation of window frames and glass.

Excavation for the headquarters building began in February 1980, and construction will be completed

late this summer. About 1,200 Federal Reserve employees now located in five different buildings throughout the financial district will move to the new headquarters building in late summer and early fall.

A 38-foot high loggia (arcade) is now being constructed, and will be topped by urban plants. The loggia will sit on a 40-foot set-back space between the sidewalk and the front of the headquarters building. The steel supports of the loggia will be covered by precast sections of concrete.



## PARTEE DISCUSSES BANK SECURITIES ACTIVITIES

*In recent testimony before the Senate Banking Committee, Federal Reserve Governor J. Charles Partee discussed several proposals to expand bank participation in securities markets by allowing them to underwrite municipal revenue bonds and offer mutual funds. Excerpts from his testimony follow:*

The Board favors granting banks the authority to underwrite and deal in most state and local government revenue bonds. In addition, we think that trust departments of depository institutions should be allowed to establish collective investment funds—analogueous to mutual funds—that could be offered to the general public and not limited to those customers who had entered into trust agreements. For now, we would limit the investments of these more broadly available funds to stocks and bonds; bank or thrift sponsorship of money market funds seems to us to be in effect a “back-door” method of deregulating deposit rate ceilings. As such, it would undermine the authority of the Depository Institution Deregulation Committee—the body established by Congress to oversee an orderly phaseout of these ceilings—and in the process would tend to aggravate an already difficult situation caused by erosion of the traditional deposit base of depository institutions in favor of investments in money market instruments.

Because these proposed activities are the natural extension of services banks already undertake in various departments, we believe that the easiest and most beneficial method of implementing the new activities would be to allow them to be carried out in the appropriate section of the bank. Bank participation in these areas would be conducted under the same basic legal and regulatory structure that applies to nonbank participants, but responsibility for supervising the new activities would logically fall to the agencies that now perform this task for the related existing activities in banks. Within this framework, we can achieve equity in regulation between bank and nonbank entities competing to deliver

the same services, and we can protect the public interest in safeguarding the soundness of our financial institutions.

The Board does not see the need for requiring that the proposed activities be done in a separate affiliate within the corporate structure. We believe that this approach would reduce some of the public benefits that could derive from bank or thrift entry into these areas, would be unnecessarily expensive and burdensome, particularly for smaller institutions, and would not by itself provide effective protection of the bank from risks to the combined organization that these activities could in some circumstances entail.

The Board has long supported legislation that would allow banks to underwrite and deal in municipal revenue bonds. We believe that this would be a logical and reasonable extension of current bank activity in the tax-exempt market. Revenue bonds played a minor role in state and local government finance in the early 1930s when Glass-Steagall restrictions were imposed, but by last year they had grown to around 70 percent of tax-exempt bond sales. The entry of banks into this area would allow them to utilize the expertise of their municipal bond departments more fully and efficiently, and the additional competition should reduce costs for many revenue bond issuers.

We believe that the provisions of Section 301 of S.1720 introduced by Senator Garn in the last session of Congress would be sufficient to protect against a bank assuming excessive risk when underwriting revenue bonds and against conflicts between the interests of the bank as underwriter and as investor or fiduciary. Banks would be permitted to underwrite or deal in only those issues in which they could also invest, and their holdings of the obligations of any one issuer would be limited to 10 percent of the bank's capital and surplus. Moreover, transactions between the bank's dealer department and its investment or trust accounts would be regulated. Indeed, we would recommend that the Congress extend those protections to bank transactions in G.O. municipal securities as well.

## ADVISORY COUNCIL TO DISCUSS CRA


The Federal Reserve Board of Governors has announced that its Consumer Advisory Council will discuss the impact of the current economic environment on regional credit conditions. The Council intends to discuss developments under the Community Reinvestment Act, since it is concerned that current economic conditions may be affecting disproportionately the availability of credit for consumers and local communities.

The Council's 30 members represent consumers and the financial

industry. The Council advises and consults with the Federal Reserve Board on the exercise of the Board's responsibilities under the Consumer Credit Protection Act, and on other nonmonetary issues on which the Board seeks its views.

At its April 28-29 meeting, the Advisory Council will consider respondents' comments on questions such as the following: “What problems are you facing in this economic environment in providing or obtaining credit for consumer purchases (for example, automobile loans or ap-

pliance purchases), neighborhood reinvestment (for example, mortgage-credit rehabilitation loans, home-improvement loans, or second-mortgage loans), and other community purposes?”

The Council is soliciting views on these and other questions from community and consumer groups, public advocates, creditors of all types, governmental agencies, and other interested parties. Comments must be received by April 7. Information on this subject may be obtained from the Consumer Affairs Unit of the Federal Reserve Bank of San Francisco, at (415) 544-2762. 



## DIDC APPROVES NEW CERTIFICATE

The Depository Institutions Deregulation Committee (DIDC), at its March 22 meeting, authorized depository institutions to offer a new 91-day saving certificate at market rates, effective May 1. The Committee also adopted a schedule for gradual elimination of all Federal ceilings on interest rates paid by depository institutions. As the first step under the schedule, rate ceilings will be eliminated on small-denomination time deposits that mature in 3½ years or more. The second step, taken a year later, would eliminate ceilings on time deposits maturing in 2½ years or more, and so on.


Congress created the committee to oversee the deregulation of interest rates under the terms of the Depository Institutions Deregulation and Monetary Control Act of 1980. The voting members include the Secretary of the Treasury (the present DIDC chairman) and the Chairmen of the Federal Reserve Board of Governors, the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation, and the National Credit Union Administration.

The 91-day certificate will be similar to the six-month money-market certificate account that has proved popular with savers the last several years. The new certificate will require a \$7,500 minimum deposit, compared with the \$10,000 minimum required for six-month accounts. The interest rate on the new account will be tied to the discount rate on 13-week Treasury bills, which carried a rate of 12.55 percent in the latest auction.

To give thrift institutions a competitive edge, DIDC reestablished a one-quarter percentage-point rate differential for both savings-and-loan associations and mutual savings banks. When the rates become effective on May 1, thrift institutions will be able to offer a rate equal to the 13-week bill discount rate, while commercial banks will be required to pay one-quarter percentage-point less.

## FED PERMITS CONSULTING ADVICE

The Federal Reserve Board of Governors has announced permission for bank holding companies to provide management-consulting advice to unaffiliated nondepository institutions. The action involved an amendment to the Board's Regulation Y, which covers the activities permissible to bank holding companies. The Board acted after consideration of comments received in connection with an application by BankAmerica Corporation.

Under the amendment, management-consulting advice could be offered to institutions such as savings-and-loan associations, mutual-savings banks, and other types of nonbank depository institutions. Previously, the Board's rules permitted bank holding companies to provide management-consulting advice only to commercial banks. The newly permissible activities could include, for example, the selling of advice related to bank operations and marketing, bank personnel operations, and consumer-financial information. 

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The long-term deregulation schedule replaces a similar schedule that was overturned on a technicality in Federal District Court last July. The court acted on a thrift-institution complaint that the plan did not retain interest differentials now existing for various account categories. To avoid that problem, DIDC created a new family of time-deposit accounts, with declining minimum maturities. The accounts initially will have a maturity of 3½ years or more.

DIDC meanwhile asked for a staff study of options for a new savings account that could allow financial institutions to be more competitive with money-market mutual funds. Money-market funds are not covered by Federal interest-rate ceilings, and therefore can compete with market instruments—such as Treasury bills and commercial paper.

## FED PROPOSES COMPETITION RULES

The Federal Reserve Board of Governors has proposed revised guidelines to help banks and its own staff determine when proposed bank mergers could be anti-competitive and subject to special scrutiny. The Board asked for comments on this proposal no later than April 9.

The guidelines would relate to acquisitions, consolidations, and mergers of banks in different geographic areas, and would address competitive factors under the Bank Merger Act and the Bank Holding Company Act. The guidelines do not relate to horizontal acquisitions—that is, those involving directly competing banks.

The guidelines are designed to ease the application process by reducing substantially the number of applications that must undergo in-depth inquiry. The guidelines also address Federal Appeals Court directions to the Board to establish criteria that must be met to deny mergers on potential-competition grounds.

The Board suggested that intensive examination will be triggered by these four criteria:

- The market of the targeted firm is highly concentrated—that is, with three-quarters of the bank deposits in the market already held by three or fewer banks.
- The number of future entrants is relatively small—that is, six or fewer applicants, with all meeting certain asset-size criteria.
- The targeted firm's market is a standard metropolitan statistical area, and also is attractive for entry—that is, with more than \$250 million in deposits, and with higher than average deposit-growth rates.
- The targeted firm is a market leader—that is, among the three largest in the market, and with ten percent or more of total deposits in that market. 



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## FED PAID \$14 BILLION TO U.S. TREASURY

Gross income of Federal Reserve Banks amounted to \$15.5 billion during 1981, according to preliminary estimates. This represented a 21-percent increase from a year earlier. The income came primarily from interest on U.S. securities acquired through open-market operations—one of the Fed's main tools for implementing monetary policy.

Of its total income, the Fed paid more than \$14 billion to the U.S. Treasury under the category of interest on Federal Reserve notes. All of the Fed's income is paid to the U.S. Treasury, after deductions for current expenses and certain other items—such as the statutory dividend to member banks and additions to surplus to bring it to the level of paid-in capital.

The largest item on the expense side involved current expenses for the 12 Reserve Banks and their 25 branches. These expenses totalled \$879 million—about 13 percent above the 1980 total.

The revenue side showed for the first time a minor (\$155 million) item representing income from priced Federal Reserve services. This reflected the phasing-in during the latter part of the year of a Congressionally-mandated program to charge for Federal Reserve services of a nongovernmental type.

## NEW CHECK PRICES

*(Continued from page 1)*

Francisco District has developed a two-zone structure for all check-service prices. One fee schedule applies to services offered by the San Francisco and Los Angeles offices, and the other applies to services offered by the Portland, Salt Lake City, and Seattle offices.

In the new schedule there will be two prices for nonmachineable deposits: 1) a local nonmachineable per-item price for handling such items drawn on institutions within the local Federal Reserve office territory, and 2) a new "other Fed" nonmachineable per-item price for such items drawn on institutions located in other Federal Reserve office territories. Such items are handled twice within the System, and this new price corrects an oversight in the original fee schedule.

In another major change, the Fed will now charge a base price and an add-on price for package-sort deposits: a price for each package, and a price for each item in the deposit.

Questions concerning the Fed's new price schedules should be addressed to the Financial Services officers and managers at the Reserve Bank's five offices. They are: San Francisco—Martha Perry (415) 544-2127; Los Angeles—Kelly Stir-

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## Federal Reserve Bank of San Francisco

## FED MONITORS STOCK INDEX FUTURES

The Federal Reserve Board of Governors has issued for comment a regulatory framework that could be used to establish margin requirements on futures contracts based on stock indexes. The Board asked for comments by April 30.

Last month, the Commodity Futures Trading Commission gave permission to the Kansas City Board of Trade to trade stock-index futures contracts. The Fed decided not to impose margin requirements at this time, since the Board of Trade had increased its own initial margin requirements on these futures contracts, and had narrowed the definition of hedging for margin purposes.

However, the Federal Reserve plans to monitor closely the development and operation of the market for stock-index futures contracts. The Board believes that formal margin requirements on such contracts may be appropriate at some later time to limit the use of speculative credit—and to assure competitive equality with stock options, which are now subject to margin requirements.

ling (213) 683-8540; Portland—Susan Robertson (503) 221-5909; Salt Lake City—William Hall (801) 322-7927; Seattle—William Ferenzen (206) 442-2754.